Description of the Indiana Budget Process

The process of developing a comprehensive state budget involves the participation of numerous parties and stakeholders over an extended time period. The State of Indiana has a biennial budget, meaning that each budget contains appropriations for two fiscal years. Fiscal years in Indiana begin on July 1st and end on June 30th of the following year. The budget process is comprised of a number of individual phases, which are summarized as follows:

Phase 1: Preparation

Budget Request Submission

The budget process begins during even-numbered years with the State Budget Agency issuing Biennial Budget Instructions to state agencies. The instructions provide guidance to state agencies in submitting requests for funding. Each state agency prepares and submits a budget request, which includes a Current Services Budget, representing the cost of maintaining agency services at current levels. The budget submission may also contain New Services Requests, covering proposed increases, Capital Project Requests, covering one-time expenditures for the construction and maintenance of state facilities. In addition, the budget submission may include internal reallocations and budget reductions.

Budget Agency Review

The Budget Agency reviews the submitted budget requests and formulates recommendations. Budget review includes a detailed analysis of agency programs, operational performance, changes in population and cost trends, and other factors related to the efficient, effective use of public resources. The Budget Director discusses the analyses and recommendations, including any variances, with the Governor. The requests are adjusted as approved by the Governor, and then presented to the Budget Committee.

The Budget Committee

The Budget Committee is composed of four legislators – one Democrat and one Republican from both the House of Representatives and the Senate – and the Director of the Budget Agency. The Budget Committee holds public hearings with state agencies to outline their budget requests. After the hearings are completed and future revenue estimates are presented via the Revenue Forecast, the committee makes a single, comprehensive budget recommendation to the Governor.

The Revenue Forecast

State revenue forecasts are made annually in December, prior to the convening of legislative sessions, and again in April, prior to final legislative approval and enactment of appropriations. The revenue forecasts are prepared by the Indiana Economic Forum and the Revenue Forecast Technical Committee. The Forum consists of independent economic advisors that forecast the economic outlook for the state. The Technical Committee, which operates independently from the Economic Forum and represents both political parties and the executive and legislative branches, uses the economic forecast to produce specific projections of revenue for sales tax, income tax, and other sources.

The Budget Report

The Budget Committee, assisted by the State Budget Agency, uses its budget recommendation to create an itemized budget report and an initial draft of the budget bill. The report and bill show the recommended operating and construction budgets, separately itemized, for each state agency, office, board, commission, and department. The initial Budget Report and bill are submitted to the Governor by the Budget Committee. The Governor then delivers the final Budget Report and bill to the General Assembly.

Phase 2: Adoption

The second phase of the budget process is the legislative adoption of the budget. The Indiana General Assembly debates the proposed budgets contained in the budget bill and determines the amounts and purposes for which tax dollars may be spent.

House Action
The legislative budget process begins in the House of Representatives, when the Speaker of the House assigns the budget bill to the House Ways and Means Committee. This committee considers the proposed legislation and holds hearings. These hearings provide an opportunity for agency representatives and the public to be heard on various aspects of the proposed budget. The Committee may amend the bill by majority vote. When deliberations are completed, the Ways and Means Committee reports the bill out for consideration by the entire House, usually in an amended form. After the committee report is adopted, the bill is considered to be on second reading. The bill may be further amended at this point. Individual representatives may present second reading amendments for debate. The offered amendments to the bill are either adopted or fail, the bill moves to third reading for approval as amended. Once passed by a majority vote, the bill is sent to the Senate for consideration.

Senate Action
In the Senate, the Finance Committee has primary responsibility for budget bill deliberations. In a similar manner to the House Ways and Means Committee, the Senate Finance Committee conducts public hearings with selected agencies before issuing a committee report. Again, the bill may be amended in committee by a majority vote. After the bill is passed out of the committee, it goes through the second and third reading process, just as in the House. Once passed, the budget bill goes to conference committee to resolve differences between the House and Senate versions, unless the Senate passes the exact House version of the budget bill (a rare occurrence).

Conference Committee
The budget conference committee is composed of four legislators, called conferees. The bill must be approved unanimously by these legislative conferees before it can be reported back to either chamber. While the conferees generally represent both political parties in the House and Senate, the majority legislative parties ultimately have the authority to appoint conferees. Conference committee negotiations represent the final stage of the budget deliberation, involving compromises by all parties prior to adoption and reporting of a recommended revised budget. When the conference committee reports out a revised recommended budget, each chamber adopts or rejects it. If rejected by either chamber, the conference committee must reconvene and renew negotiations.

Other Bills
Although the budget bill is the principal vehicle for authorizing a state spending plan, other spending bills are sometimes adopted as well. They typically involve relatively small appropriations, but can, on occasion, be very significant. These bills must be taken into account at each stage of the appropriations process in order to assure that the total of all appropriations will not exceed available resources. Recent practice has been to remove these appropriations from non-budget bills and amend them into the budget bill during conference committee.

Gubernatorial Approval
After the budget bill has been adopted by both chambers, it goes to the Governor for signature or veto. The Governor must sign the bill or veto it in its entirety. A gubernatorial veto may be overridden by a majority vote in both the House and Senate. Once signed, the appropriation act becomes the budget for the State of Indiana for the next two years, and the process of budget implementation begins.

Off-year Budget Actions
Although sessions in odd-numbered years are the focus of the bulk of budgetary action by the General Assembly, sessions in even-numbered years may see some level of budgetary activity. New spending decisions may be required by changing economic and revenue projections. This may take the form of either additions to or reductions of current programs, or it may involve entire new programs or capital projects.

Phase 3: Implementation

Budget implementation involves the establishment of accounts; the adoption of allotment schedules to govern the timing of expenditures; the monitoring and control of expenditures, and the adjustment of appropriations, as conditions warrant, through transfers and supplemental appropriations.

Establishment of Accounts
Within 45 days of the adjournment of each regular session of the General Assembly, the Budget Agency prepares a list of all appropriations made by law for the upcoming budget period. The Budget Agency works with the Auditor of State to establish the accounts needed to execute the budget during each fiscal year. Appropriations establish overall spending limits for each account.

Allotments
Allotments are used to control spending. An allotment limits the amount of an appropriation that may be expended during a given time period. Appropriations are not available for expenditure until allotted by the State Budget Agency. The Budget Agency generally develops a quarterly allotment schedule for each account, to ensure that sufficient funds are available throughout the year and that expenditures do not exceed revenues. The Budget Agency may hold a small percentage of agency funds in reserve, to ensure adequate fund balances. The allotment schedule may be adjusted over the course of the fiscal year as conditions change.

Budget Committee Role
The Budget Committee provides continuing legislative oversight of budget implementation. The Budget Committee meets during the interim between legislative sessions. Many appropriations contained in the Budget require Budget Committee review before any funds may be allotted or spent. In addition, the Budget Committee must review all construction projects that have a cost greater than $100,000 before construction can begin.

Reporting
The Auditor of State provides daily allotment and trial balances, and other accounting and exception reports, to keep agencies informed of their account balances. The Budget Agency publishes each revenue forecast, as well as annual reports on specific sources and uses of funds. As prescribed by the Governmental Accounting Standards Board and in conformity with Generally Accepted Accounting Principles, the Auditor of State annually publishes a Comprehensive Annual Financial Report.

Transfers
Budgets are dynamic financial plans based on hopes and predictions made as much as thirty months in advance, so some variances are bound to occur as events unfold. Most budget variances are minor and are handled in the ordinary course of business by the agencies. When this is not the case, financial adjustments or transfers of appropriation authority may be necessary.

Statute authorizes the Budget Director to transfer, assign, or reassign appropriations within a state agency as long as the uses and purposes to which transfers are made are authorized or required by law. Such transfers must be at the request and with the consent of the agency whose appropriations are involved. The Budget Director is also authorized to make transfers from contingency or emergency appropriations for purposes authorized by law. The Budget Director may also reduce allotments to prevent a deficit if revenues fall short of forecast levels.

The State Budget Agency may also make inter-agency transfers with the approval of the State Board of Finance. The State Board of Finance is composed of the Governor, Treasurer, and Auditor of State, and has wide statutory authority to make transfers of appropriations between funds and entities of the State.

Oversight

The Budget Agency works in collaboration with state agencies throughout the year to ensure that expenditures are made within appropriation levels, in a manner that fulfills legislative intent and ensures maximum effectiveness in providing services.

Phase 4: Audit

The State Board of Accounts provides separate annual financial and compliance audits in accordance with generally accepted auditing standards for each State agency, including issuing opinions on the general purpose financial statements prepared by the State Auditor. The audits verify the status, accounting, and disposition of all funds for which the State has responsibility. (Additionally, the State Board of Accounts performs annual audits of local government in Indiana.)